

Subject 404

Medical and Health Savings Accounts

A Medical Savings Account (MSA) is a trust or custodial account that is created or organized exclusively for the purpose of paying the qualified medical expenses of the taxpayer, as well as the taxpayer's spouse and/or dependents. In order to be eligible, a taxpayer must have had insurance coverage only under a "High Deductible" Health Plan.

Arkansas adopted Internal Revenue Code (IRC) §106 concerning employer contributions to an employee Medical Savings Plan and IRC §138 concerning excluding Medicare plus MSA payments from income.

Health Savings Accounts (HSAs) enable workers with high deductible health insurance to make pre-tax contributions equal to the lesser of the annual deductible or \$2,700 for self-coverage (\$5,450 for families) for 2005 to cover health care costs. Any amount paid or distributed out of an HSA for payment of qualified medical expenses of any account beneficiary are not includible in gross income. Distributions not used for payment of qualified medical expenses are includible in gross income and subject to a 10% penalty.

A high deductible health plan is defined as a plan with a minimum annual deductible of at least \$1,050 for self-only coverage (\$2,100 for family coverage) for 2006. The annual out-of-pocket expenses cannot exceed \$5,250 for self-only coverage (\$10,500 for family coverage) for 2006. Out-of-pocket expenses include deductibles, co-payments, and other amounts (other than premiums) that were paid for plan benefits.